



PRACTITIONER ELECTRONIC FILING GUIDE

The Louisiana Department of Revenue thanks Edward Mendlowitz, CPA for the following information from his firm's conversion to electronic filing.



The information below has been adapted from *Managing Your Tax Season* by Edward Mendlowitz, CPA published by the AICPA.

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Before 2004 we were not too keen on electronic filing. However, starting with the 2004 tax season (for 2003 returns), we decided to use electronic filing as much as possible. Our results have been more than phenomenal: 87 percent of our clients' returns were filed electronically. Note that the IRS has a special incentive for professionals filing more than 100 returns electronically: They give you access to their computer database for the clients that you filed electronically.

Electronic filing greatly reduces the paper handling, the mailing costs (both of us sending the return to the client and by the client sending to the governments), and the rushes to get things "in the mail" so they are received in time for the client to post.

ELECTRONIC FILING HELPS THE CPA FIRM BECAUSE:

- It reduces handling in office — assembling and mailing.
- It decreases the time we can get returns to client (electronically by e-mail).
- It is easier to retrieve and review in the filing room.
- It is easier to retrieve and review when a client calls with a question.
- The tax preparation software provides a review of essential items that can stop a return with an error from being filed (such as a wrong Social Security Number for a dependent) reducing later correspondence.
- It saves mailing costs.
- It saves client time — mailing, going to the post office, and getting a certified mail receipt.
- It provides "proof" of filing.
- It reduces IRS data entry error.
- It speeds up refunds (which reduces telephone calls clients make to CPA firms to say they did not get their refund and could we follow up).

YOU SHOULD BECOME FAMILIAR WITH THE E-FILING FORMS:

- Form 8453, "U.S. Individual Income Tax Declaration for an IRS e-file Return"
- Form 8453-OL, "U.S. Individual Income Tax Declaration for an IRS e-file Online Return"
- Form 8879, "IRS e-file Signature Authorization"

Firm administrative procedures have to be established to keep track of the forms the clients have to sign and return to you. You are generally required to have signed forms in your possession before you can "push the button." However, at the last minute of tax season this might not be possible. You should establish a protocol to get the client's assent to file, such as an email response or even a telephone okay. If a client calls in their consent, the person taking the call should print out the signature form and write on it that the client called. This keeps the procedures and handling process uniform. This is very important considering the large number of returns that are e-filed the last few days of tax season. One way to avoid a last-minute rush is to have someone follow up a few days after the returns are sent to the client to get the forms back quickly.

Many states will force electronic filing in a few years for any preparer firm that prepares more than a minimum (varies between states) number of returns.

A firm policy needs to be established where not every return can be e-filed; for instance, the federal and three state returns can be e-filed, but not a fourth state's return for that client. We would suggest that every return that can be e-filed is, and the others have paper returns.

SOME AREAS WHERE RETURNS CANNOT BE E-FILED:

- Withholding is more than 50 percent of the taxable wages.
- Social Security Numbers for taxpayer or dependents are incorrect.
- A dependent has been claimed by someone else (for example, a child is claimed by an ex-spouse).
- Certain state schedules and forms cannot be e-filed, but almost every IRS form can be e-filed
- The name and Social Security Number do not match IRS records.

A cautionary word about e-filing. There should be no identity theft issues with an e-filed return; but there might be if you email returns to clients. We now put passwords on every email to a client where what we are sending has their Social Security Number. A safer way is to establish a portal whereby clients can directly access their files on your server.

Our experiences with e-filing were more than satisfactory and I wholeheartedly recommend it to fellow professionals.

SAMPLE PROCEDURES FOR PREPARING FORMS FOR E-FILING

The Process: When *e-filing* returns, they will be prepared in the normal manner, making sure to complete the necessary *e-filing* requirements for each input sheet, and then tested for *e-filing* capabilities. If the returns are able to be *e-filed*, the client's copy of the returns will be sent to the client for approval with either Federal Form 8879 if no attachments are required, or Form 8453 with required attachments. The client will approve the returns for *e-filing* by having both spouses sign and return the Forms 8879 or 8453 to us. Once the approved forms are received from the client, the returns can be e-filed. If the client is sent Form 8453, the original Form 8453 must be forwarded to the IRS within 3 business days after the *e-filed* return was accepted by the IRS. If the client signed Form 8879, this form will be kept in our files, and will not be forwarded to the IRS.

Preparer

Prepare the return in the normal manner, making sure to complete the necessary *e-filing* requirements on each input sheet. Clear as many of the diagnostics as possible by clicking "View" on the tool bar and selecting "Diagnostics".

Once the return has been completed, it is now ready for the *e-filing* process.

Select "Electronic Filing" from the Organizer tree, and open "1040 Returns".

STEPS:

Step 1: Enable Electronic Filing.

Our EFIN (Electronic Filing Identification Number) has been entered as a default setting.

- Check the "Enable Federal Filing" box.
- Check "Enable All Resident States" box or select individual States for filing.

Step 2: Personal Identification Numbers (PIN).

We will be using the "Practitioner PIN" program; therefore, the "Practitioner PIN" box should be checked. Select the box to "Randomly generate the taxpayer and spouse PIN numbers".

The ERO (Electronic Return Originator) PIN # should be entered.

This five-digit number is the Signer's three or four-digit employee number followed by one or two zeros. For example, if the Signer is employee # 999, the ERO PIN # would be 99900.

Enter the date that the PIN #s were entered.

If the return cannot be *e-filed* using the electronic signature method of Form 8879, it must be *e-filed* using the manual signature method using Form 8453.

The manual method (Form 8453) must be used if there are special IRS Form such as Form 8283 (Non-Cash Charitable Contributions, Section B Appraisal Summary), 1098C regarding the donation of an automobile, or other paper attachments such as schedules of capital gain transactions that are not entered on Fast Tax (see list in Fast Tax input sheet by clicking "Form 8453 Requirements and Selections").

Step 3: Direct Deposit or Debit.

If the client wants to have his/her refund direct deposited or account debited for payment, enter the information on the "**Taxpayer Information**" screen, it will automatically carry to this screen. If the account is to be debited, and the client does not give you a specific date to debit the account, use April 14 as a default date.

Step 4: Additional Information.

Review the Specific input for completeness. Do not override ERO and Paid Preparer Information.

Step 5: Review Electronic Filing Diagnostics.

Fully recomputed the return. Follow the directions on this screen before you "Create Electronic File".

Step 6: Create Electronic File.

Check the "Enable Federal Electronic Filing for this Return" box. Check the State return box(es) as needed. Finally, click "Create Electronic File for 1040 Returns".

Anytime a change is made to a return, you must recompute the return, clear the e-file diagnostics, and create a new electronic file.

Once an Electronic File is created, the return is "**Qualified**" for electronic filing. The return is now ready to print and give to the reviewer.

Processing the Return to Send to Client. After the reviewer has completed his/her review, the return **MUST** be recomputed and a new "Electronic File" **MUST** be created. The return is then printed in final form, together with Forms 8879 or 8453, and given to Tax Processing for assembly. The return is assembled, and given back to the reviewer to check the assembled return for completeness. Once completed, the return is given to the Signer for signature and mailing to the client.

The reviewer's FINAL STEP is to lock the return by entering the "Completed Date".



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